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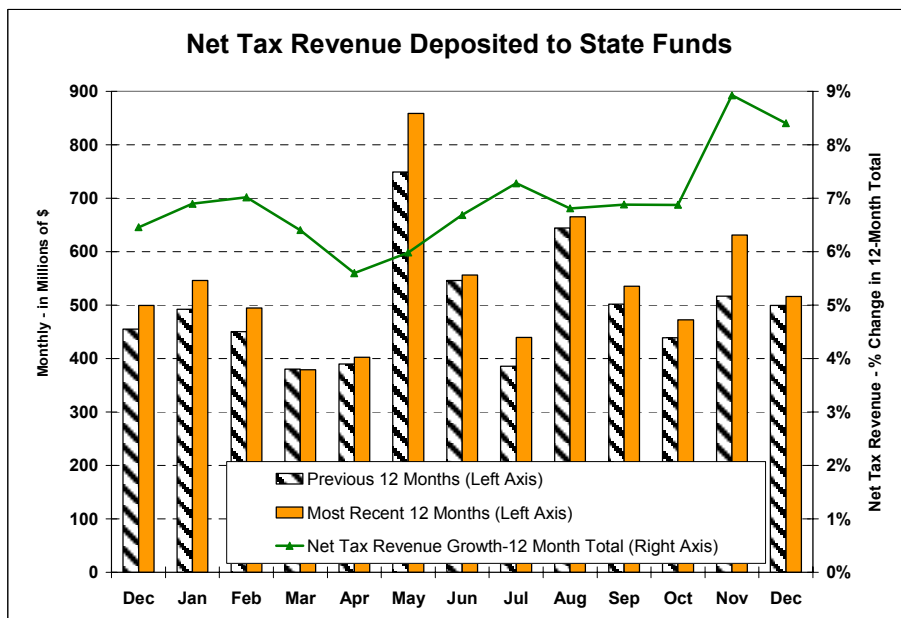
ADMINISTRATIVE SERVICES  
 TIMOTHY C. FALLER

**MEMORANDUM**

TO: Members of the Iowa Senate and  
 Members of the Iowa House of Representatives  
 FROM: Jeff Robinson  
 Shawn Snyder  
 DATE: January 16, 2008

**Twelve-month Total Net Tax Receipts Through  
 December 31, 2007**

The attached spreadsheet presents net State tax receipts for the 12-month period ending December 2007 with comparisons to the previous 12 months. December 2007 to December 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



**Month of December Comparison**

December net tax receipts totaled \$515.6 million, an increase of \$16.5 million (3.3%) compared to December 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$14.1 million, 6.0%) – Gross receipts were up \$19.7 million while Income Tax refunds increased \$5.5 million for the month.
- Corporate Income Tax (negative \$19.0 million) – Gross receipts decreased \$4.6 million and refunds increased \$14.4 million.

December net receipts partially offset the two strong months of October and November.

- Sales/Use Tax (positive \$6.7 million, 4.7%) – General Fund Gross Sales/Use Tax receipts increased \$5.1 million and Use Tax deposited to the Road Use Fund increased \$0.9 million. Refunds issued for the month decreased \$0.7 million.
- Fuel Tax (\$8.0 million, 19.4%) – Gross Fuel Tax revenue increased \$9.1 million while refunds processed in the month increased \$1.1 million. December's large increase was due to a deposit timing issue that will be offset in January.
- Cigarette & Tobacco Taxes (positive \$10.0 million, 138.9%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending December 2007, net revenue from all taxes deposited to State funds totaled \$6.495 billion, an increase of \$503.4 million (8.4%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$291.7 million, 11.8%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns.
- Corporate Tax (positive \$22.7 million, 7.3%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last eight months but remains solidly positive.
- Sales/Use Tax (positive \$82.7 million, 3.9%) – The rate of Sales/Use Tax growth has been volatile over the past 12 months. Local Option Sales Tax deposit and withdrawal timing issues have caused the year-over-year growth rate to fluctuate between 0.1% and 3.9% over that time period.
- Fuel Tax (positive \$19.6 million, 4.4%) – Net Motor Fuel Tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand. Approximately half of the current 4.4% growth is due to a deposit timing issue that will reverse in January.
- Gambling Tax (positive \$10.8 million, 3.9%).
- Cigarette and Tobacco Tax (positive \$114.2 million, 117.4%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$35.4 million, - 26.6%) – The Insurance Premium Tax rate is being reduced over multiple years. Calendar year 2007 is the first year all premiums are taxed at the final 1.0% rate. The use of tax credits may also be impacting this revenue source.

### **Tax Spotlight – Other Taxes**

The "Other Tax" category includes the following net tax collections:

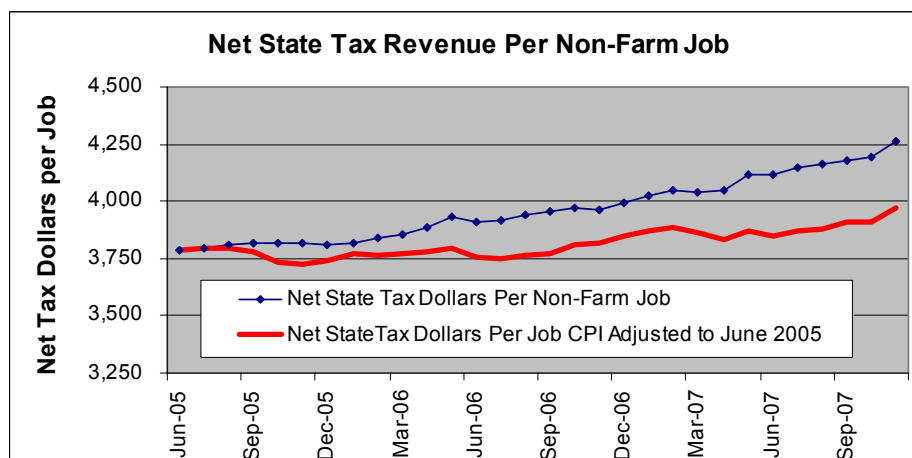
- Brucellosis Eradication Property Tax – This Statewide property tax is administered under the authority of Section 165.18, Code of Iowa. The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2008, the property tax rate was \$0.0035 per \$1,000 of taxable valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$487,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of Chapter 453B, Code of Iowa. The tax is imposed on dealers of marijuana and other controlled

substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited to the General Fund. The tax raised \$316,000 over the most recent 12-month period.

- **Utility Replacement Property Tax** – This Statewide property tax is administered under the authority of Section 437A.18, Code of Iowa. The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$219,000 over the most recent 12-month period.
- **Property Tax Relief Fund** – Under certain circumstances, Utility Replacement Property Tax may be deposited to the Property Tax Relief Fund created in Chapter 426B, Code of Iowa for distribution to counties. During the most recent 12-month period, \$627,000 in tax has been deposited to the Fund.
- **Car Rental Tax** – This excise tax is administered by the Department of Revenue under the authority of Chapter 423C, Code of Iowa. The tax rate of 5.0% is imposed on the rental price of an automobile. Funds received from the Car Rental Tax are credited to the Road Use Tax Fund. The tax raised \$3.6 million over the most recent 12-month period.
- **Tax Gap Program** – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. Approximately \$3.5 million per year in tax revenue is expended through the Tax Gap Program.
- **Department of Revenue Operating Appropriation Transfers** – Each month, the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department's operations account. The money is used in the operations budget to fund collections and streamlined sales tax activities. Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as "intrastate transfers." During the most recent 12-month period these transactions have artificially reduced reported State tax receipts by a total of \$11.6 million.

## Tax Revenue and Employment

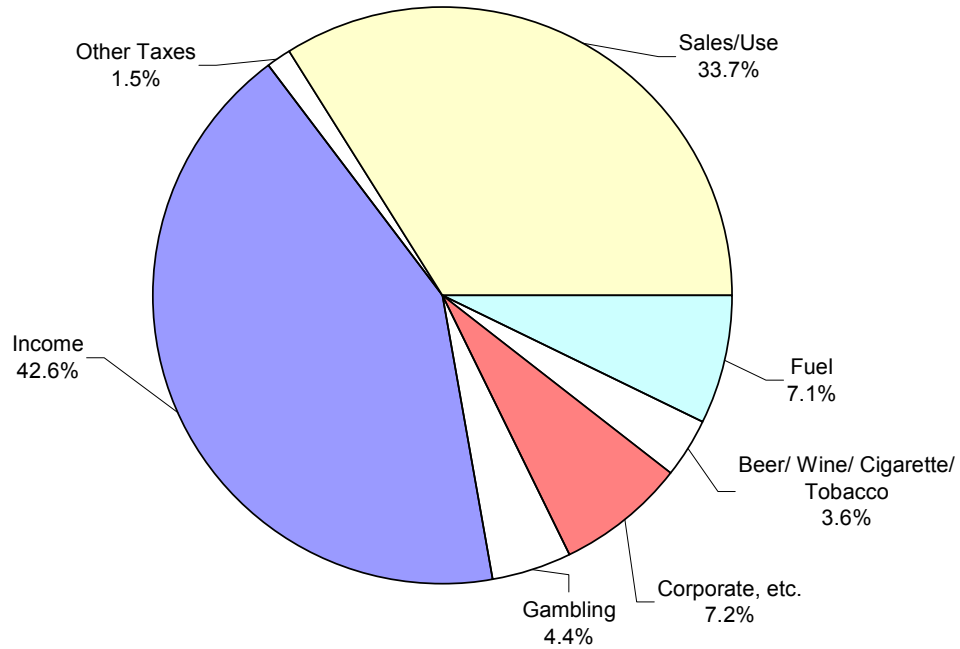
The average reading for Iowa non-farm employment over the 12 months ending October 2007 is 1,520,800, and net State tax receipts over the same 12 months totaled \$6.478 billion, or \$4,265 per non-farm job. This is \$475 (12.5%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 8.1%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.9% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending December 2007

**Net Revenue = \$6.495 Billion**

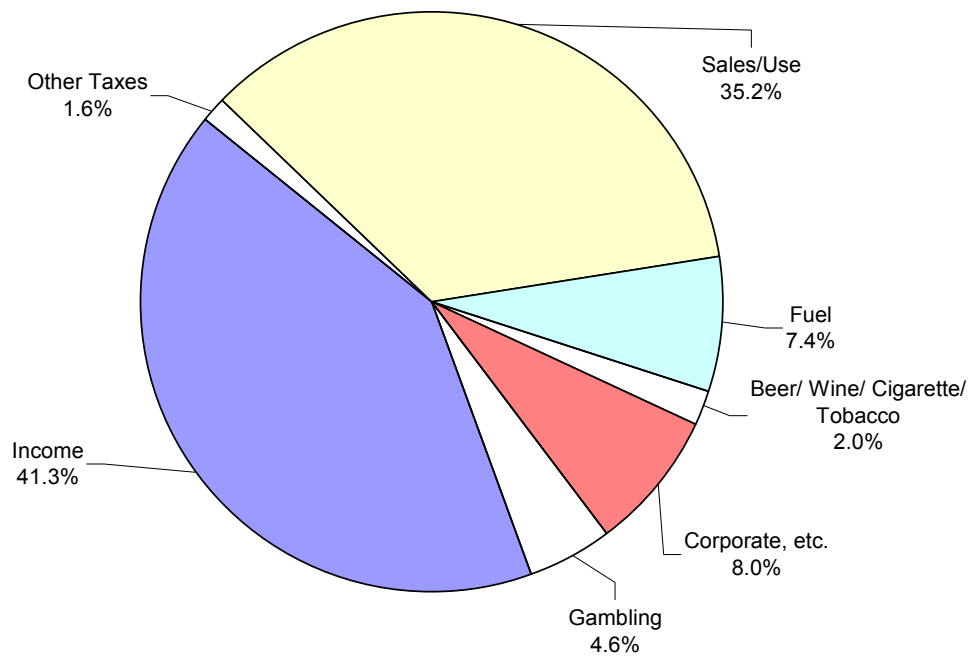
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending December 2006

**Net Revenue = \$5.991 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of December 2006	Month of December 2007	December \$ Change	December % Change
Banking	\$ 33.0	\$ 32.3	\$ - 0.7	-2.1%	\$ 3.6	\$ 3.0	\$ - 0.6	-16.7%
Beer & Wine	20.1	20.6	0.5	2.5%	1.7	1.7	0.0	0.0%
Cigarette & Tobacco	97.3	211.5	114.2	117.4%	7.2	17.2	10.0	138.9%
Corporate Income	311.9	334.6	22.7	7.3%	40.7	21.7	- 19.0	-46.7%
Fuel	442.3	461.9	19.6	4.4%	41.2	49.2	8.0	19.4%
Gambling	275.6	286.4	10.8	3.9%	19.7	18.6	- 1.1	-5.6%
Individual Income	2,472.4	2,764.1	291.7	11.8%	234.3	248.4	14.1	6.0%
Inheritance	71.5	75.0	3.5	4.9%	5.1	5.2	0.1	2.0%
Insurance	132.9	97.5	- 35.4	-26.6%	0.3	0.3	0.0	0.0%
Other Taxes	7.2	1.0	- 6.2	-86.1%	2.8	0.9	- 1.9	-67.9%
Real Estate Transfer	18.5	18.5	0.0	0.0%	1.3	1.5	0.2	15.4%
Sales/Use	2,108.7	2,191.4	82.7	3.9%	141.2	147.9	6.7	4.7%
<b>Total Net Taxes</b>	<b>\$ 5,991.4</b>	<b>\$ 6,494.7</b>	<b>\$ 503.4</b>	<b>8.4%</b>	<b>\$ 499.1</b>	<b>\$ 515.6</b>	<b>\$ 16.5</b>	<b>3.3%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 6,644.8	\$ 7,162.0	\$ 517.2	7.8%	\$ 517.6	\$ 556.3	\$ 38.7	7.5%
Tax Refunds	\$ - 653.5	\$ - 667.3	\$ - 13.8	2.1%	\$ - 18.6	\$ - 40.6	\$ - 22.0	118.3%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,045.3	\$ 5,513.2	\$ 467.9	9.3%	\$ 415.6	\$ 426.4	\$ 10.8	2.6%
Road Use Tax Fund	\$ 686.7	\$ 720.5	\$ 33.8	4.9%	\$ 61.1	\$ 70.2	\$ 9.1	14.9%
Non-GF Gambling	\$ 216.7	\$ 226.0	\$ 9.3	4.3%	\$ 19.7	\$ 18.4	\$ - 1.3	-6.6%
Other State Funds	\$ 42.7	\$ 35.0	\$ - 7.7	-18.0%	\$ 2.6	\$ 0.7	\$ - 1.9	-73.1%
<b>Local Option Taxes *</b>	<b>\$ 620.6</b>	<b>\$ 685.8</b>	<b>\$ 65.2</b>	<b>10.5%</b>	<b>\$ 55.8</b>	<b>\$ 60.8</b>	<b>\$ 5.0</b>	<b>9.0%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## **Tax Categories Used in Table**

**Franchise (bank) Tax:** Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

**Beer & Wine:** Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All Corporate Tax is deposited to the State General Fund.

**Motor fuel Tax:** All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

**Individual Income Tax:** Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All Inheritance Tax is deposited to the State General Fund.

**Insurance Premium Tax:** All Insurance Premium Tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

**Real Estate Transfer Tax:** Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

**Sales/Use tax:** General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

## **Report Database**

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.